

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

In the Matter of	)	
	)	
Truth-in-Billing and	)	Docket No. 04-208
Billing Format	)	
	)	
National Association of	)	
State Utility Consumer Advocates'	)	
Petition for Declaratory Ruling	)	
Regarding Monthly Line Items and	)	
Surcharges Imposed by	)	
Telecommunications Carriers	)	

**COMMENTS OF THE COALITION FOR A COMPETITIVE  
TELECOMMUNICATIONS MARKET**

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MARKET**

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## SUMMARY

On March 30, 2004, NASUCA filed a Petition for Declaratory Ruling (“Petition”) with the Commission requesting a ruling that all carrier line-item charges not specifically mandated by a governmental agency are misleading and deceptive, and therefore are in violation of Federal law. The Coalition for a Competitive Telecommunications Market (“CCTM”) demonstrates below that the Petition should be denied for the following reasons.

First, as a practical matter, the relief that NASUCA requests is not necessary in order to protect consumers. The CCTM proposes instead that increased government-sponsored consumer education efforts, coupled with diligent enforcement of the Commission’s existing regulations, are sufficient to ensure that consumers are not misled as to the nature of line-items appearing on their bills. In this case, the issue raised by NASUCA can be effectively addressed without further regulation.

Secondly, NASUCA fails to show that existing carrier line-item practices are in violation of current Federal law. In the case of the *TIB Order* and the *Contribution Order*, the line-items are specifically permitted, thus, any declaratory ruling that line-items are proscribed by such rulings must be denied. NASUCA also fails to provide a sufficient basis to show that line-items violate Sections 201 and 202 of the Act.

Third, the relief requested by NASUCA would actually harm public welfare by compromising the benefits of a competitive marketplace. CCTM strongly believes that the interaction between carriers and consumers provides the most reliable method of arriving at an efficient market equilibrium with respect to whether line-items are warranted. Government intervention as requested by NASUCA will most likely upset this balance and result in harm both to consumers and carriers alike.

Finally, the relief requested by NASUCA is not necessary in that the marketplace already provides substantial disincentives to the use of misleading or deceptive line-items on customer bills. Those carriers that attempt to mislead customers will be shaken out by the market.

For these reasons, NASUCA's Petition should be denied.

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**COMMENTS OF THE COALITION FOR A COMPETITIVE  
TELECOMMUNICATIONS MARKET**

The Coalition for a Competitive Telecommunications Market (“CCTM”), by and through its attorneys, hereby comments on the petition for declaratory ruling (“Petition”) of the National Association of State Utility Consumer Advocates (“NASUCA”). As shown below, the Petition should be denied.

**I. Introduction**

On March 30, 2004, NASUCA filed its Petition with the Commission requesting a ruling that all carrier line-item charges not specifically mandated by a governmental agency are misleading and deceptive, and therefore are in violation of Federal law and Commission policies. The Commission requested comments on the Petition through a Public Notice issued on May 25, 2004.

The CCTM is an informal coalition of providers of resold long distance services offered to business and residential subscribers throughout the U.S. Its members offer primarily 1+ services. CCTM's members are committed to the advancement of a competitive telecommunications marketplace in the U.S. and strongly oppose unnecessary or unduly burdensome regulatory measures.

## **II. Additional Regulation is not Necessary to Protect Consumers**

As a practical matter, it must be stressed that the relief NASUCA requests is simply unwarranted. Instead of expanding the scope of regulation as NASUCA requests, the Commission should enhance consumer education efforts as a more efficient, less intrusive means to protect consumers. To the extent that misleading or deceptive surcharges may exist following implementation of enhanced consumer education, the Commission's existing enforcement authority -- supplemented by state public utilities commission enforcement powers and state consumer protection laws -- is more than sufficient to address NASUCA's concerns.

### *A. Better Consumer Education Efforts Would Reduce Consumer Confusion*

In its Petition, NASUCA states that in the *Truth in Billing Order* ("TIB Order")<sup>1</sup> the Commission found that "virtually every state and consumer advocacy group that commented" identified consumer confusion as a growing concern.<sup>2</sup> However, NASUCA fails to show that misleading and deceptive carrier surcharges are the primary cause of this confusion. Indeed, it appears from the material supplied by NASUCA that most interexchange carriers are charging

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<sup>1</sup> *In the Matter of Truth-in-Billing and Billing Format, First Report and Order*, 14 FCC Rcd 7492 at 32 (1999).

<sup>2</sup> *See* Petition at 7.

fairly uniform rates for recovery of regulatory costs.<sup>3</sup> The confusion instead stems from the sheer number of charges that appear on customer bills as the direct result of government action.<sup>4</sup>

Not only are customers faced with federally mandated surcharges, but they must also deal with a variety of state and local fees and taxes. There appears to be no single consumer or industry resource that exists whereby consumers can identify individual charges and determine the purpose behind those charges. Carrier websites often provide detail regarding line-item surcharges. However, if a customer questions whether a particular surcharge should be included on his or her bill, that customer should not be expected to rely on literature produced by the same company that levied the charge. Furthermore, if, as NASUCA states, customers rarely consult with carrier websites to discern information regarding fees<sup>5</sup>, it is unimaginable that customers would peruse Commission orders to find details regarding obscure charges such as, for example, TRS.

The best way to address such confusion is through expanded consumer education efforts.<sup>6</sup> The Commission has recognized the benefits of consumer education<sup>7</sup> and frequently issues

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<sup>3</sup> See Petition at 12 - 17.

<sup>4</sup> As Commission Chairman Michael K. Powell stated in his concurring statement in the *TIB Order*, “line-items do result, at bottom, from actions taken by the government to preserve and advance universal service and to achieve other valid goals pursuant to the 1996 Act.” See *TIB Order* at 72.

<sup>5</sup> See Petition at 7 n. 21.

<sup>6</sup> One measure the Commission could utilize is the creation of a central resource listing all federal fees which might be passed on to consumers and then-current contribution factors for those fees. Another approach would be the creation of a federal/state central resource (maintained jointly by the Commission and the various state public utilities commissions) which lists all federal and state fees that can be passed on along with then-current contribution factors for those fees.

consumer alerts and bulletins. Indeed, consumer education is the central function of the Commission's Consumer and Government Affairs Bureau.<sup>8</sup>

Enhanced consumer education is ideally suited to addressing the concerns raised by NASUCA. First, as shown above, the fundamental nature of the problem is customer confusion which is best addressed through education efforts. Second, enhanced consumer education is consistent with a deregulatory approach and avoids unnecessary interference with free market forces.<sup>9</sup> And third, enhanced consumer education avoids placing unnecessary burdens on both industry and regulators.

*B. Existing Commission Enforcement Authority is Sufficient to Address Surcharge-Related Concerns*

To the extent that there may be unscrupulous carriers which attempt to exploit consumers through misleading or deceptive billing practices, such carriers should be -- and can be -- dealt with by the Commission. The Commission's existing enforcement authority, not additional regulation, is best suited to addressing such practices.<sup>10</sup> As Commissioner Kathleen Abernathy

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<sup>7</sup> See, e.g., Common Carrier Bureau Encourages Voluntary Carrier Participation in Consumer Education Program, *Public Notice*, 5 FCC Rcd 4680 (1990).

<sup>8</sup> See About the FCC: A Consumer Guide to Our Organization, Functions and Procedures, at 6, available online at: [http://hraunfoss.fcc.gov/edocs\\_public/attachmatch/DOC-247863A1.pdf](http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-247863A1.pdf) (last visited July 7, 2004).

<sup>9</sup> In fact, enhanced consumer education serves to complement the function of free market forces by reducing transaction costs for consumers.

<sup>10</sup> Existing Commission enforcement authority is supplemented by the ample enforcement powers of the various state public utilities commissions and state consumer protection laws. Indeed, NASUCA's members themselves have the ability to file complaints to initiate enforcement actions under state and federal law. Collectively, this authority is more than sufficient to address any concerns that might remain following expanded consumer education efforts.



has stated, a key question to consider when evaluating whether regulation is necessary is “[w]ould a less regulatory approach, paired with an emphasis on strict enforcement of existing rules, produce greater consumer welfare?”<sup>11</sup> Viewed in this framework, it is clear that NASUCA’s request must be denied.

As NASUCA points out<sup>12</sup>, the Commission currently has the authority under Federal law to penalize companies which seek to mislead or deceive consumers, and the Commission is not reluctant to use that authority when necessary.<sup>13</sup> Existing law, including Sections 201 and 202 of the Communications Act of 1934, as amended (“Act”)<sup>14</sup>, as well as the Commission’s general enforcement authority<sup>15</sup>, provides more than enough enforcement authority for the Commission to ensure that carriers do not abuse their ability to creatively design pricing plans.<sup>16</sup> In fact, even

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<sup>11</sup> See Kathleen Q Abernathy, *My View from the Doorstep of FCC Change*, 54 FED. COMM. L.J. 199, 204 (2002) (“Regulators should have a healthy skepticism towards any attempt to displace market forces with regulation. Therefore, in each case, I will ask: Is this regulation truly necessary? Is there a market failure? Will the burdens imposed by the proposed regulation outweigh its anticipated benefits? Will it preserve incentives for companies to innovate, and thereby deliver better services and lower prices to consumers? Would a less regulatory approach, paired with an emphasis on strict enforcement of existing rules, produce greater consumer welfare? Similarly, I will continually examine our existing regulations to ensure that the original justification for regulatory intervention remains valid.”)

<sup>12</sup> See Petition at 4.

<sup>13</sup> See, e.g., *In the Matter of NOS Communications, Inc. and Affinity Network Incorporated, Notice of Apparent Liability for Forfeiture*, FCC 01-113 (2001) (holding two companies liable for deceptive marketing practices). See also *Business Discount Plan, Inc.*, 14 FCC Rcd 340, 355-358 (1998); *AT&T Corp.*, 71 RR2d 775 (1992).

<sup>14</sup> 47 U.S.C. § 151 *et seq.*

<sup>15</sup> See 47 U.S.C. § 208 and §§ 501-510. See also 47 U.S.C. §§ 401-416.

<sup>16</sup> As explained *infra* at 12-14, the marketplace also disincentivizes carriers from inflating or misrepresenting surcharges.

if used sparingly, the general deterrent effects of enforcement penalties will provide signals to the industry as to which types of line-items the Commission feels are improper.

### **III. NASUCA Fails to Justify the Relief it Requests**

As demonstrated below, NASUCA fails to show that existing carrier line-item practices are in violation of either the *TIB Order*, the *Contribution Order*<sup>17</sup>, or Sections 201 and 202 of the Act.

#### *A. NASUCA Fails to Show that the Complained of Activities are in Violation of the TIB Order*

In the *TIB Order*, the Commission intentionally stopped short of adopting regulations barring carriers from recovering their regulatory costs through line-items. Instead, the Commission in the *TIB Order* was concerned that certain line-items may lead customers to believe that they represent federally mandated charges.<sup>18</sup> The *TIB Order* makes clear that it is not concerned with limiting the manner by which carriers recover their costs.<sup>19</sup> Instead, the Commission states it is focused on adopting guidelines that will direct carriers to issue bills in such a manner so as to facilitate consumer understanding of line-item charges that appear on customer invoices.<sup>20</sup>

NASUCA's Petition fails to account for this difference in claiming that the complained of activities violate the *TIB Order*. Even if, as NASUCA claims, certain line-item charges as

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<sup>17</sup> *In the Matter of Federal State Joint Board on Universal Service*, Docket No. 96-45, *Report and Order and Second Further Notice of Proposed Rulemaking*, FCC 02-329 (Dec. 13, 2002).

<sup>18</sup> *See TIB Order* at 31-32.

<sup>19</sup> *See id.* at 32.

applied are deceptive and or misleading, line-item charges *per se* are not in violation of the Commission's *TIB Order*. The *TIB Order* clearly does not limit the method by which carriers' can recover their costs. In fact, NASUCA's Petition acknowledges as much when it states that the Commission did not "require that carrier charges be imposed only when expressly authorized by state or federal regulatory action ... the Commission ... never required carriers to demonstrate that the monthly surcharges being imposed bore any relationship to the costs directly incurred as a result of such regulatory programs."<sup>21</sup>

Thus, it is clear that, while there may be specific instances in which carrier surcharges might be misleading or deceptive, the principles adopted under the *TIB Order* cannot be construed so as to allow across the board restriction of line-item charges. To the extent that sections of the Act which provide the underlying basis for the *TIB Order* principles are violated, those violations should be addressed through the Commission's existing enforcement authority.<sup>22</sup>

*B. NASUCA Fails to Show that the Complained of Activities  
are in Violation of the Contribution Order.*

NASUCA claims that carrier billing practices are in violation of the Commission's *Contribution Order*.<sup>23</sup> This clearly is not the case.

As NASUCA states in its Petition, the *Contribution Order* specifically allowed carriers to recover costs associated with Universal Service through line-item charges. The *Contribution*

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<sup>20</sup> See *TIB Order* at 31-32.

<sup>21</sup> See Petition at 8 n. 16.

<sup>22</sup> See *supra* at 4-6.

<sup>23</sup> See Petition at 35.

*Order* only required that carriers not characterize administrative and other costs associated with Universal Service as regulatory fees.<sup>24</sup> Thus, instead of being a legal basis for barring line-item charges, the *Contribution Order* actually specifically allows such charges as long as costs associated with Universal Service contributions are not recovered under the guise of collecting a federally mandated “regulatory fee.”<sup>25</sup>

*C. NASUCA fails to show that the Complained of Activities  
are in Violation of Section 201 of the Act*

NASUCA is incorrect that carrier line-items as applied violate Section 201 of the Act.<sup>26</sup>

NASUCA bases its argument that carrier line-items are unreasonable on its presupposition that the costs which they are intended to recover are quite low.<sup>27</sup> NASUCA uses as an example NANPA and TRS fees, which it states should only amount to a few cents per bill.<sup>28</sup> NASUCA then makes a leap of logic and declares that, since these fees are so low, any excess contained in the line-item must be an overcharge.<sup>29</sup> However, NASUCA admits that it

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<sup>24</sup> See *Contribution Order* at para. 54.

<sup>25</sup> Few if any carriers seem to be recovering costs of Universal Service under the guise of collecting “regulatory fees”. Indeed, many carrier line-items have specific disclaimers stating that the charges are not required by any government entity. See Petition at 12.

<sup>26</sup> Section 201 of the Act prohibits “charges, practices, classifications, and regulations for and in connection with communications service” that are not “just and reasonable”. See 47 U.S.C. § 201.

<sup>27</sup> See Petition at 43-44.

<sup>28</sup> See *id.* at 44.

<sup>29</sup> See *id.* at 44.

does not know the amount of the line-items attributed to carrier's administrative costs.<sup>30</sup> Thus, NASUCA's claims that the carrier's line-item charges are across the board unreasonable is purely based on speculation.

NASUCA attempts in large part to base its analysis of carrier billing practices on Commission policies regarding advertising.<sup>31</sup> NASUCA is correct that similar concerns are involved in the Commission's advertising policy as are involved in the Commission's *TIB Order*. However, NASUCA's attempt to use the Commission's "net impression" test for deceptive advertising as a means to show that line-item surcharges are in violation of Section 201 is inapplicable here. If NASUCA is concerned with carrier advertising it should address those concerns. Otherwise, advertising and billing should not be confused.<sup>32</sup>

*D. NASUCA Fails to Show that the Complained of Activities  
are in Violation of Section 202 of the Act.*

NASUCA states several times in its Petition that the way in which carriers use line-item surcharges violate the anti-discrimination requirements of Section 202 of the Act.<sup>33</sup> However, NASUCA fails to establish a *prima facie* case that Section 202 of the Act has been violated.

For a petitioner to show that carrier charges constitute unjust or unreasonable discrimination it must first establish a *prima facie* case. In order to establish a *prima facie* case

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<sup>30</sup> See Petition at 44.

<sup>31</sup> See *id.* at 39.

<sup>32</sup> Moreover, so long as the line-items are provided in the context of a competitive market, the Commission should presumptively assume that they are reasonable. Carriers which attempt to assess fees which do not bear a reasonable relationship to their underlying costs would soon be undercut by competition. See *infra* at 12.

<sup>33</sup> See, e.g., Petition at 2 and 37.

under Section 202 of the Act, a petitioner must first show that discriminatory pricing has occurred in the provision of “like” services.<sup>34</sup> The strongest way to demonstrate that “like” services are at issue is to show that service is identical.

Here NASUCA has failed to provide any evidence whatsoever that discriminatory pricing has occurred in the provision of like services.<sup>35</sup> Because of the complete lack of any factual assertions demonstrating discrimination or establishing that “like” services are at issue, NASUCA has failed to establish a *prima facie* case under Section 202 of the Act.

#### **IV. The Relief NASUCA Requests would Undermine Competition**

The relief requested by NASUCA would harm public welfare by compromising the benefits of a competitive marketplace.

It is widely accepted that the greatest overall public benefit is derived through competitive market forces.<sup>36</sup> In the words of Commissioner Abernathy, “[r]egulators should have a healthy skepticism towards any attempt to displace market forces with regulation.”<sup>37</sup>

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<sup>34</sup> See, e.g., *American Broadcasting Companies, Inc. v. FCC*, 663 F.2d 133, 139 (D.C. Cir. 1980).

<sup>35</sup> In fact, although NASUCA claims that carrier line-items are in violation of Section 202 of the Act, it does not offer any explanation of how discrimination is taking place through the use of line-items.

<sup>36</sup> See, e.g., Robert L. Wynns, *The Limits of Economic Regulation: The U.S. Experience*, Federal Communications Commission, International Bureau Working Paper Series 2, at 13 (June 2004) (available online at: [http://www.fcc.gov/Daily\\_Releases/Daily\\_Business/2004/db0621/DOC-248597A1.pdf](http://www.fcc.gov/Daily_Releases/Daily_Business/2004/db0621/DOC-248597A1.pdf)) (“...the fewer prices we regulate and the more we recognize that we are unlikely to prescribe the correct prices, the less damage we are likely to do.”).

<sup>37</sup> See Kathleen Q Abernathy, *My View from the Doorstep of FCC Change*, 54 FED. COMM. L.J. 199, 204 (2002). See also *supra* at n. 11.

Congress also understood that greater efficiency could be accomplished through competition than through government regulation when it enacted the Telecommunications Act of 1996 (“1996 Act”).<sup>38</sup> Congress was clear that the purpose of the 1996 Act is to reduce regulation as a way of fostering competition.<sup>39</sup> This, in Congress’s view, was seen as the best way to further the Act’s goal of “a rapid, efficient, nation-wide, and world-wide wire and radio communications service with adequate facilities at reasonable charges.”<sup>40</sup> Congress went so far as to require the Commission to revisit its regulatory scheme every two years in order to evaluate whether competitive effects had removed the need for certain rules.<sup>41</sup>

It is evident from NASUCA’s Petition that certain carriers choose to compete through the use of unique pricing plans. Some carriers price line-items according to a flat rate per bill. Other carriers have chosen to use line-items that function as a percentage of consumers’ usage. Obviously, this competition gives consumers the ability to choose the type of pricing plan that best suits their needs and, in turn, customers benefit from the variety of plans available.<sup>42</sup>

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<sup>38</sup> Telecommunications Act of 1996, P.L. No. 104-104, 110 Stat. 56, codified at 47 USC §§ 251 *et seq.*

<sup>39</sup> See Joint Manager’s Statement, S. Conf. No. 104-230, 104<sup>th</sup> Cong., 2d Sess. 1 (1996)(Conference Report indicating that the purpose of the 1996 Act is “to provide for a pro-competitive, de-regulatory national policy framework designed to accelerate rapidly private sector deployment of advanced telecommunications and information technologies and services by opening all telecommunications markets to competition ...”).

<sup>40</sup> 47 U.S.C. § 151.

<sup>41</sup> See 47 U.S.C. § 161.

<sup>42</sup> For example, a customer with low monthly usage may opt for a pricing plan with regulatory fees based on a percentage while customers with high usage may opt for flat rate line-item pricing plans.

Ensuring a competitive market by allowing carriers to offer unique and creative pricing plans will, as a matter of fundamental economic theory, maximize the public good, consistent with the objectives of the 1996 Act.<sup>43</sup> By contrast, the relief requested by NASUCA (*i.e.*, limiting the ways in which carriers price their products), will reduce customer choice and impair competitive market forces.<sup>44</sup>

#### **V. The Marketplace Penalizes Carriers that May Inflate or Misrepresent Line-Item Charges**

Finally, the relief requested by NASUCA is unnecessary as a matter of economics since the marketplace itself penalizes carriers that may inflate or otherwise misrepresent their costs in line-item charges.

Carriers currently have every incentive to ensure that their pricing plans are easily understood by customers. NASUCA seems to have overlooked the fact that existing Commission rules require carriers to post their rates on their websites.<sup>45</sup> However, even if there was no requirement to post rates to carrier websites, carriers would have a strong incentive to do

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<sup>43</sup> NASUCA states that “competition is not merely intended to enhance telecommunications carriers’ corporate interests”. *See* Petition at 5. The members of CCTM entirely agree with this statement but are concerned that NASUCA mischaracterizes a competitive market as primarily benefiting corporate interests. Clearly, a competitive market benefits consumers as well as providers.

<sup>44</sup> NASUCA would prefer that carriers recover their costs only through their usage rates. *See* Petition at 66. NASUCA fails to appreciate the fact that certain costs do not lend themselves to recovery through usage rates. Some costs may be best addressed through one time fees, others on a recurring basis. Some, such as usage, may lend themselves to being billed on a per-minute basis while others may best be billed as a flat rate. Carriers, and not regulators, are in the best position to determine the most appropriate method for recovery of their costs.

<sup>45</sup> *See* 47 C.F.R. § 42.10. NASUCA states that some carriers have evidently not complied with this requirement. To the extent that this is true, those carriers are in violation of Commission requirements and can be sanctioned pursuant to the Commission’s enforcement authority. *See supra* at 4-6.



so voluntarily in order to fully advertise their rates so as to reduce calls to toll free numbers and customer service personnel.

NASUCA also agrees that carriers provide information regarding charges in their welcome packages and bills.<sup>46</sup> However, NASUCA states that this is of no use to customers since they are already receiving service at the time of the disclosure.<sup>47</sup> NASUCA's argument fails to appreciate the supply side of the market for new customers. Carriers incur substantial costs in acquiring new customers (*e.g.*, marketing, waived PIC change fees, order verification, compliance with anti-slamming regulations that vary on the federal and state levels, among others). Carriers are strongly incentivized to decrease customer churn rates in order to avoid negating the revenues gained from new customers. Thus, even absent regulation, the market provides powerful incentives for carriers to provide easily understood pricing plans to customers prior to sale.

Carriers are also incentivized to minimize customer service costs by reducing the number of customers who call to complain about or question their bills. Furthermore, research has shown that carriers which experience high customer turn-over rates will fail to be as successful as those that retain customers.<sup>48</sup> Customer trust, loyalty, and good will is of substantial importance in such a competitive market. It is CCTM's position that no carrier can survive for the long-term

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<sup>46</sup> See Petition at 11 n. 21.

<sup>47</sup> *Id.*

<sup>48</sup> See Frederick F. Reicheld & Thomas A. Teal, *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value* (Harvard Business School Press) (1996) (documenting quantitative research demonstrating that firms that retain customers dramatically improve their profitability by improving revenue growth, learning and productivity.)

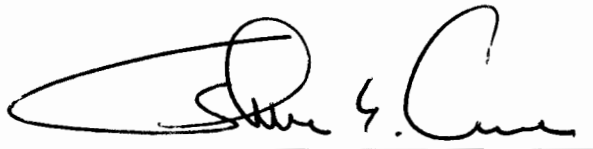
in today's competitive telecommunications industry while being eaten alive by high churn rates and low customer satisfaction.

Additionally, NASUCA indicates that Commission intervention is necessary because "it is impossible to assess whether the IXC's surcharges bear any relationship to the services the carriers' customers are receiving."<sup>49</sup> However, especially in the extremely competitive market for long distance services, carriers have a strong incentive to ensure that such charges are kept as close as possible to underlying costs. Carriers that charge more than a reasonable amount for such fees stand to be quickly undercut by competition and lose customer base as a result.

## **VI. Conclusion**

For the foregoing reasons, NASUCA's Petition should be denied.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas K. Crowe", written over a horizontal line.

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July 14, 2004

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<sup>49</sup> See Petition at 30.

### **CERTIFICATE OF SERVICE**

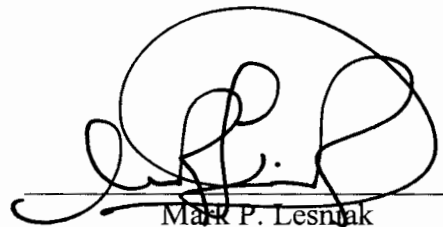
I, Mark P. Lesniak, a legal assistant with the Law Offices of Thomas K. Crowe, P.C., certify that on July 14, 2004, a copy of the foregoing *Comments of the Coalition for a Competitive Telecommunications Market*, was served by first class United States mail, postage prepaid upon the parties listed below.

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